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2d Session

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REPORT
98-370

FIRST MONETARY POLICY REPORT FOR 1984

FROM THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

A REPORT

together with

ADDITIONAL VIEWS

SUBMITTED PURSUANT TO PUBLIC LAW 95-523

MARCH 28 (legislative day, MARCH 26), 1984.—Ordered to be printed

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LETTER OF TRANSMITTAL

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
Washington, D.C., March 28, 1984.

Hon. GEORGE BUSH,
President of the U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Transmitted herewith is the First Monetary Policy Report for 1984 on the Conduct of Monetary Policy, pursuant to Public Law 95-523 and oversight hearings held on February 8 and 9, 1984.

Sincerely yours,

JAKE GARN, *Chairman.*

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MARCH 28 (legislative day, MARCH 26), 1984.—Ordered to be printed

Mr. GARN, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[Submitted pursuant to Public Law 95-523]

FIRST MONETARY POLICY REPORT FOR 1984

On February 8, 1984, the Committee on Banking, Housing, and Urban Affairs received this year's first "Monetary Policy Report to Congress Pursuant to the Full Employment and Balanced Growth Act of 1978" (Public Law 95-523) from the Board of Governors of the Federal Reserve System.

Two days of hearings on the Report and on monetary policy were held by the Committee. On February 8, 1984, Federal Reserve Board Chairman Paul A. Volcker presented a statement and testimony to the Committee. On February 9, 1984, statements and testimony were received from Beryl Sprinkel, Department of the Treasury, Under Secretary for Monetary Affairs; from Martin Feldstein, Chairman, the President's Council of Economic Advisers; and from a panel consisting of Professor Allan H. Meltzer, Carnegie-Mellon University and Robert T. Parry, Executive Vice President and Chief Economist, Security Pacific Corporation.

MONETARY GROWTH IN 1983

The rapid growth in M_1, which began in the latter half of 1982 and continued through the first half of 1983, slowed markedly during the third and fourth quarters of last year. The Federal Reserve explained the earlier period of rapid growth as being primarily a result of two factors: (1) an increased demand for liquid assets "stemming from highly uncertain unemployment and income pros-

pects" and (2) the lagged effect of a decline in interest rates that reduced the opportunity cost of holding the low-yielding assets included in M_1.

Because the rapid money growth in late 1982 was associated with a decline in velocity and did not appear "normal" in terms of historical relationships between money and the economy, the first "Monetary Policy Report" for 1983 announced that the Federal Open Market Committee (FOMC) in October of 1982 temporarily had begun to deemphasize the importance of growth in M_1; the implementation of monetary policy was focused more on growth rates in the broader aggregates, primarily M_2 and M_3.

Nonetheless, in February of 1983, Chairman Volcker did announce a target range for growth in M_1 during 1983 of 4 percent to 8 percent, using its average size during the fourth quarter of 1982 as a base. Subsequently, the aggregate grew at an annual rate of 12.4 percent between 1982Q4 and 1983Q2. In July of 1983, the Federal Reserve announced a new 5 percent to 9 percent "monitoring range" for M_1 growth during the remainder of the year, using the aggregate's average size during the second quarter as a base.

From 1983Q2 to 1983Q4, M_1 grew at an annual rate of 7.2 percent, a rate near the mid-point of the new "monitoring range." In its most recent "Monetary Policy Report to Congress", the Fed ascribed this slowing of M_1 growth as 1983 progressed to: (1) a reduced precautionary demand for liquid assets as confidence in the economic outlook improved and (2) a moderate rise in interest rates.

As with M_1, growth in M_2 was rapid late in 1982 and remained rapid through early 1983. Since M_2 includes all the components of M_1, part of the rapid growth in M_2 was attributable to the same factors explaining the pickup in M_1. Another factor, however, also contributed to the expansion of M_2: the introduction of the money market deposit account (MMDA).

In November of 1982 when depository institutions first began offering these accounts with no interest rate ceilings, intense competition prompted many institutions to post introductory interest rates that were above yields on market investments. By March of 1983, outstandings reached $321 billion, and while most of the inflow to MMDA's appears to have come from other instruments included in M_2, sufficient inflow came from outside the M_2 aggregate to impact its growth rate significantly.

Recognizing the impact of the MMDA oin M_2 growth and expecting that impact to be temporary, the Federal Reserve's first "Monetary Policy Report" for 1983 used the average size of the aggregate during February–March, not its average size during the fourth quarter of the previous year, as the base for targeted growth during the upcoming year. The target range was set at 7 percent to 10 percent.

While M_2 grew at a 20.5 percent annual rate during 1983's first quarter, from its February–March base through the fourth quarter of 1983, M_2's growth rate slowed to an 8¼ percent annual rate, near the mid-point of its adjusted target range. Part of the deceleration was attributable to the same factors accounting for the slowdown in underlying M_1 growth. Another part was attributable

to less aggressive marketing of MMDA's by commercial banks as they encountered relatively sluggish business loan demand.

As M_3 includes all the components of M_2, growth in M_3 increased during 1982's first quarter because of the rapid growth in underlying M_2. However, from then until the closing months of the year, growth in M_3 was restrained as M_2 growth slowed and as commercial banks reduced outstandings of large CD's—included in M_3 but not M_2—to offset deposit growth in MMDA's. In early 1983, the Fed established a target range for growth in M_3 of 6½ percent to 9½ percent for the year, and this target was reconfirmed in the second "Monetary Policy Report" last summer. Realized growth for the year, based on fourth-quarter 1982, was 9.7 percent.

Table I shows that, for 1983 as a whole, combining the relatively rapid growth in M_1 and M_2 during the first two quarters with slower growth during the year's latter half produced overall growth for each aggregate within the target ranges established in July, 1983. Growth of M_3 was slightly above the upper boundary of its target range.

TABLE I.—1983 MONETARY GROWTH AND TARGET RANGES

Aggregate	Percentage growth rates	
	Actual growth	Target range
M_1	7.2	5.0 to 9.0
M_2	8.3	7.0 to 10.0
M_3	9.7	6.5 to 9.5

In its February 1983 "Monetary Policy Report" the Federal Reserve for the first time announced a range of "expectations" for growth in total domestic nonfinancial sector debt. The range was set at 8½ percent to 11½ percent, but Chairman Volcker stressed that this did not have the "status" of a target. Realized growth for the year in total domestic nonfinancial sector debt was 10½ percent.

ANALYSIS

Attaching primary significance to changes in the growth rate of M_1, Secretary Sprinkel warned the Committee that the slowing of the narrower aggregates' growth rates late in 1983 could have a negative impact on real economic growth this year:

> . . . sharp fluctuations in money growth are closely associated with similar fluctuations in real GNP growth.
>
> It is this short-run correlation between money and real activity that makes the monetary deceleration since last summer particularly troublesome . . . This slowdown in money growth subjects the real economy to the risk of an unacceptable slowdown or downturn in the first half of 1984.

Table II illustrates the extent of the slowdown in the growth rates of the narrower aggregates and shows that, the broader the aggregate, the less pronounced the slowdown:

TABLE II.—1983 ANNUALIZED QUARTERLY GROWTH RATES

[In percent]

Quarter	M_1	M_2	M_3	L[1]
I	12.8	20.5	10.8	8.8
II	11.6	10.6	9.3	12.0
III	9.5	6.9	7.4	9.9
IV	4.8	8.5	10.0	9.8

[1] Domestic nonfinancial sector debt.

According to Sprinkel, volatility in monetary growth rates also leads to uncertainty in financial markets that pushes interest rates upward, and he cited empirical evidence indicating that monetary volatility caused interest rates to be 200 to 300 basis points higher than they otherwise would have been during 1980–1981. Arguing that such volatility is not necessary, the Secretary cited Federal Reserve staff estimates that quarterly M_1 growth could be controlled within a range of ± 1 percent.

Professor Meltzer joined Secretary Sprinkel in warning of the danger to economic growth and the level of interest rates from monetary volatility. According to Meltzer:

> . . . quarterly changes in the growth rate of the monetary base—bank reserves and currency—are followed within a quarter by similar changes in the growth rate of nominal GNP.

With regard to the level of interest rates, Dr. Meltzer said that:

> . . . (his) calculations suggest that the excessive variability of money growth raised short-term rates in 1983 by 2 to 2½ percentage points and kept long-term rates more than one percentage point above the level they would have reached if variability returned to the level of the 1970's.

To reduce volatility, Secretary Sprinkel recommended that the Federal Reserve follow up adoption of contemporaneous reserve accounting with two additional steps: (1) focus short-run operations directly on controlling some monetary aggregate, ideally the monetary base (or some aggregate measure of bank reserves), and (2) tie the discount rate to a market interest rate.

To improve control over the monetary aggregates and reduce volatility, Meltzer suggested the following:

> Congress should require the Federal Reserve to set a target for monetary growth. If they miss the targets by more than one percentage point, the chairman and all members of the Board of Governors should be required to offer their resignations to the President of the United States, who appoints them, with an explanation of the reason for the discrepancy. The President would have the right to accept the explanation, and with it the responsibility for the result of the policy, or accept the resignations.

Chairman Feldstein told the Committee that, because of structural changes in the financial sector last year, the economy in 1984 may not respond to changes in money growth rates during 1983 in

ways that would be predicted by historical correlations. Still, he concluded that, while this is suggested by economic data thus far in 1984, a final answer cannot be known until later this year:

> The year 1983 was a time of significant change in financial regulations that substantially altered the nature of the monetary aggregates . . . and the pattern of portfolio demand for monetary assets . . . A change in the available mix of financial assets or in the characteristics of the monetary aggregates is likely to change the equilibrium ratios of nominal GNP to the monetary aggregates. The Federal Reserve can in principle adjust the supply of money to compensate for the shift in demand without altering the degree of liquidity in the economy or, equivalently, the likely growth of nominal GNP . . . Unfortunately, however, there is no way to know by exactly how much the financial deregulation changed the demand for each of the monetary aggregates . . . All that can be said with certainty at this time is that monetary policy has come through a very difficult year of substantial deregulation without any apparent problem yet in either real growth or inflation.

Dr. Parry gave an explanation of the slowing of money growth late in 1983 that differed from that given by the Fed; his explanation did not focus on lagged interest rate effects or on precautionary demands for money. According to Dr. Parry:

> Since the middle of last year, the monetary authorities have cinched up a bit on the credit reins. From the middle of 1983 to the end of the year, M_1 grew very little, and short-term interest rates, most significantly the federal funds rates, edged upward. This move on the part of the Fed to tighten just six months into the economic recovery is unprecedented. It seems to indicate that the monetary authorities are indeed serious about bringing the long-term rate of inflation down.

While the witneses expressed some disagreement over the consequences for the economy in 1984 which will result from monetary policy during 1983, they agreed that recent improvements in the economy have been impressive. To put those improvements in perspective, Secretary Sprinkel reminded the Committee of the choices facing the economy in 1981:

> There are those who contend that the price we have paid for the progress on inflation—in terms of a short-run loss of jobs and output—has been too great. But it is not relevant to compare the economic dislocation associated with reducing inflation to some ideal of economic performance that includes continued high real growth and low unemployment. The relevant comparison is between the effects of the anti-inflationary monetary policy that began in 1981 and the likely outcome of its alternative—continued inflationary money growth. It is highly unlikely that a period of declining output and employment could have been avoided by taking no action against an accelerating

> inflation rate. Failing to deal effectively with rising inflation—that is, an attempt to provide continued economic stimulus through inflationary money growth—would likely also have resulted in a recession, as interest rates rose with inflation and inflationary expectations.

As summarized by the witnesses, the recent improvements in the economy include the following: (1) in just three years the annual increase in the consumer price index has fallen from 13.5 percent in 1980 to 3.3 percent in 1983; (2) short-term interest rates are now 800–900 basis points below their 1980–81 peaks and long rates have fallen about 250–300 basis points from their peak levels; (3) real gross national product rose 6 percent over the four quarters of 1983; and (4) rising production spurred gains in employment large enough to cut the unemployment rate by 2½ percentage points over the course of 1983.

MONETARY POLICY IN 1984

Chairman Volcker told the Committee that during 1984 the FOMC had decided to continue to attach greater significance to growth in the broader aggregates and that ". . . growth in M_1 will be evaluated in the light of the performance of the other aggregates." Table III summarizes the ranges for growth this year in the various aggregates announced by Mr. Volcker.

TABLE III.—1984 GROWTH RANGES

Aggregate	Percent
M_1	4.0 to 8.0
M_2	6.5 to 9.5
M_3	6.0 to 9.0
L	8.0 to 11.0

The ranges for M_1, M_3 and nonfinancial debt reconfirmed those preliminarily announced for 1984 in last summer's "Midyear Monetary Policy Report to Congress." The range set for M_2 was lowered ½ percentage point from the preliminary target.

Secretary Sprinkel told the Committee that he viewed the monetary growth ranges established by the Federal Reserve for 1984 as ". . . appropriate and consistent with a continued decline in inflation." Dr. Parry's analysis concluded, however, that unless monetary velocity rises faster during 1984 than is normal in the second year of a recovery, money growth this year will be faster than the growth ranges indicate. Dr. Parry also argued that the Federal Reserve should attach greater weight than it currently does to growth in M_1.

Chairman Volcker, Secretary Sprinkel, Chairman Feldstein and Dr. Parry were unanimous in their calls for Congressional action to reduce prospective federal budget deficits. Chairman Volcker summarized the impact of those deficits on monetary policy as follows:

> By feeding consumer purchasing power, by heightening skepticism about our ability to control the money supply and contain inflation, by claiming a disproportionate share

> of available funds, and by increasing our dependence on foreign capital, (large deficits mean that) monetary policy must carry more of the burden of maintaining stability and its flexibility, to some degree, is constrained.

Chairman Volcker, Secretary Sprinkel, Chairman Feldstein and Dr. Parry also were unanimous in their calls for reductions in federal spending as a major component of deficit-cutting efforts. Dr. Parry warned the Committee that federal spending—which in 1983 equaled 25 percent of our entire GNP—threatens productivity growth and our ability to control inflation.

Witnesses before the Committee differed, however, on whether federal budget deficits are responsible for the nation's international deficits on its trade and current accounts. According to Chairman Volcker, budget deficits are pushing up interest rates, higher interest rates are attracting capital inflows from abroad, capital inflows have increased the value of the dollar on foreign exchange markets, and a higher-valued dollar has depressed U.S. exports and increased imports into the United States.

Secretary Sprinkel agreed that appreciation of the dollar on foreign exchange markets has been largely responsible for the trade and current account deficits, but the Secretary argued that this appreciation has not been the result of rising interest rates caused by worsening federal budget deficits. To the contrary, Mr. Sprinkel pointed out that, over the last few years as trade and current account deficits have been worsening, interest rates in the United States have declined and the spread between our interest rates and those abroad has narrowed.

According to Secretary Sprinkel, capital flows into the United States reflect foreign confidence in U.S. determination to fight inflation and foreign confidence in the long-term strength of the U.S. economy; such confidence is the only explanation of continued capital inflows as the interest rate advantage of investing here was declining. While these capital inflows do raise the value of the dollar and make exporting difficult, they are a vote of confidence in the U.S. economy, not a consequence of federal deficits.

CONCLUSION

Pursuant to the requirement in the Full Employment and Balanced Growth Act for a report to the Senate by the Committee on Banking, Housing and Urban Affairs stating its "views and recommendations" regarding the Federal Reserve's Monetary Policy Report, the Committee finds:

(1) Conclusive evidence is not yet available on the appropriateness of the sharp deceleration in the growth of M_1 and M_2 during the latter half of 1983. While adverse impacts on the rate of economic expansion are not now apparent, the extent of the slowdown in M_1 growth, in particular, appears difficult to justify.

Structural change resulting from financial deregulation contributed to the fluctuations in M_2, but it apparently cannot be used to explain the deceleration in M_1's growth rate. The Committee is concerned because of the strong historical correlation between sudden reductions in money growth and subsequent reductions in the rate of economic growth.

The Committee also questions the Federal Reserve's decision to continue deemphasizing the importance of growth in M_1 relative to growth in the broader aggregates.

(2) Recent improvements in the ecomony have been impressive. Last year the inflation rate was 3.3 percent, compared with 13.5 percent in 1980; interest rates were down by 800 to 900 basis points from their peaks in 1980–81; and real GNP grew 6 percent and the unemployment rate declined by 2½ percentage points.

Among the policies responsible for the achievement of these impressive results has been the policy of seeking a gradual reduction in the rate of money growth. The Administration should be commended for its continued support of Federal Reserve efforts to slow money g.owth gradually.

It is misleading to assert that the price—in terms of short-run loss of jobs and output—was too high for the economic improvements we have achieved, for as Secretary Sprinkel told the Committee, the inflation rate which the U.S. economy had reached by 1980 made a recession virtually inevitable.

(3) While Federal Government budget deficits may not be responsible for international deficits on the nation's trade and current accounts, the Committee agrees with the Administration that, if rapid improvements in the economy are to continue, prospective fiscal deficits must be reduced.

Moreover, while the Banking Committee's jurisdiction does not include the specifics of where Federal spending could and should be cut, the Committee does agree with the Administration that the long-term health of the economy requires that efforts to reduce prospective deficits must include cuts in spending; a free enterprise economy cannot function efficiently with its resources being consumed by government at today's rate.

ADDITIONAL VIEWS OF SENATORS PROXMIRE, CRANSTON, RIEGLE, SARBANES, DODD, DIXON, SASSER, AND LAUTENBERG

We believe the ability of monetary policy to promote healthy economic growth has been undermined by the huge and growing budget deficits of the Reagan Administration. These deficits are an inevitable result of the sharp increase in defense spending coupled with lower revenues and higher interest payments on the national debt arising from the 1981 Reagan tax cuts. If we do not change our current policies, the annual Federal deficit will grow from $195 billion in fiscal year 1983 to over $300 billion by fiscal year 1989. If we adopt President Reagan's program as contained in his budget submission, budget deficits will still climb to $248 billion by the end of the decade. Neither alternative is an acceptable program for our country and its citizens.

Because the Reagan Administration has allowed Federal deficits to skyrocket, the policy choices of the Federal Reserve have been severely restricted. If the Federal Reserve were to monetize the burgeoning Federal deficits, the invitable result will be a resurgence of inflation; if it sticks to its monetary growth targets, the Reagan deficits will keep interest rates painfully high, thereby discouraging the investment in housing and capital goods needed for a sustained economic recovery.

We do not believe the Federal Reserve should be forced to choose between two unacceptable alternatives. In his testimony before the Committee, Chairman Volcker warned that our growing budget and trade deficits represent a "clear and present danger" to our economic recovery. Unless we make significant progress in curbing the deficits proposed in President Reagan's budget, we will have placed an impossible burden on monetary policy. The Federal Reserve cannot rescue the Reagan Administration from the consequences of its own fiscal mismanagement without doing irreparable harm to the prospects for sustained non-inflationary growth.

Chairman Volcker also pointed out that twin deficits are not unrelated. Last year our merchandise trade deficit hit $60 billion. This means the number of jobs lost to American workers could exceed 3 million. The loss of export sales has been especially devastating for those regions where manufacturing jobs are a principal source of employment.

One of the major reasons for our trade deficit has been the unusual appreciation of the dollar which has made American goods less competitive on world markets. This bloating of the dollar has been primarily caused by our enormous Federal deficits that have attracted record-breaking foreign investment in Treasury obligations. The world-wide demand for the dollar has soared to take advantage of persistently high U.S. real interest rates relative to other countries. Interest rates remain high because of the steady

pressure of Federal borrowing and because the financial community is not convinced that Washington has its budget deficits under control.

While there has been a carefully orchestrated political campaign by the Reagan White House to blame the deficits on the Congress, we believe the President must stop playing politics with the deficit and begin exerting leadership. The President's budget request dominates the fiscal agenda of the Congress. The President's own political party controls the Senate and has often been able to achieve a working majority in the House of Representatives. And under the Constitution, the President can veto any spending measure he considers excessive and his veto is final unless it can be overridden by a two-thirds vote of both Houses. Given these facts of life, it is virtually impossible for the Congress to impose more aggregate spending on President Reagan than he wants.

In the face of these formidable Presidential powers, we find the President's claim of fiscal impotence to be ludicrous. The sky-rocketing budget deficits threatening our economy have not been imposed on a reluctant President by a spend-thrift Congress; they are a direct result of President Reagan's own misguided economic policies. It was President Reagan who eroded our revenue base by pushing through his colossal tax cuts for the wealthy. It was President Reagan who demanded and got huge increases in military appropriations irrespective of the ability of our defense establishment to absorb and prudently manage the additional cash. It was President Reagan who last year killed initiatives within his own party on measures to close the growing budget deficits. And it is President Reagan who continues to point the finger of blame at the Congress while rigidly resisting any tax increases or cuts in his inflated defense budget.

Despite all his rhetoric about holding down spending, President Reagan has become one of the biggest spending Presidents over the last three decades. If we measure Presidential performance by the average annual increase in real Federal spending (adjusted for inflation), President Reagan has performed worse than Presidents Carter, Ford, and Nixon, and far worse than President Eisenhower, as indicated on the following table:

COMPOSITION OF BUDGET OUTLAYS

President	Fiscal years	Number of years	Percent annual rate of real growth in Federal outlays
Eisenhower	1954–61	8	1.1
Kennedy	1962–64	3	4.1
Johnson	1965–69	5	5.3
Nixon	1970–75	6	2.8
Ford	1976–77	2	3.4
Carter	1978–81	4	3.9
Reagan	1982–83	2	4.0

Source: Table 25: Composition of Budget Outlays, Budget of the U.S. Government.

The last budget prepared by the Carter Administration was for fiscal year 1981. During that year, Federal outlays comprised 23.5 percent of GNP. After three Reagan budgets, Federal spending is

projected by CBO to be 23.9 percent of GNP in fiscal year 1984. Moreover, CBO projects Federal spending will continue above the level of the last Carter budget through the end of the decade under the Reagan Administration's budget program.

President Reagan has contended that spending is inextricably linked to taxes and that we must reduce taxes in order to curb the insatiable desire of the Congress to spend. Tax cuts are also supposed to stimulate capital investment. The record shows this simple-minded theory to be a miserable failure. Congress passed the Reagan tax cut for the wealthy but capital investment did not increase while government spending continued to rise. In fact, one of the principal sources of higher spending is due to interest payments on the additional Federal debt resulting from President Reagan's tax cuts. In the three fiscal years under President Reagan, the interest payments on the national debt increased from $68 billion to $108 billion, an increase of $40 billion a year. The increased interest payments on the national debt more than balance the domestic spending cuts pushed through by President Reagan in 1981.

Over 86 percent of the real growth in Federal spending under President Reagan has been due to defense and interest on the national debt. Only 14 percent of real spending increases came from all domestic programs including Social Security and Medicare. During the three fiscal years from 1981 to 1984, defense spending rose at an annual rate of 8 percent; interest payments on the debt increased at a 10.5 percent rate; all domestic programs combined rose less than 1 percent a year. Discretionary domestic programs actually declined by over 4 percent a year. (All figures represent real growth rates adjusted for inflation.)

The simple facts about the budget clearly show our deficit problem stems from the rapid increase in defense appropriations and the 1981 tax cuts. It is equally obvious that any meaningful deficit reduction program must now focus on tax increases and reductions in the rate of increase in defense spending. Virtually everyone who has studied the problem has acknowledged this simple fact of life other than the President of the United States. He continues to cling to the absurdity that it is somehow possible to close budget deficits primarily by cutting back on domestic spending. But even if we abolished every single discretionary Federal program including cancer reseach, air-traffic control, environmental protection and the like, we would still have deficits of more than $150 billion by the end of the decade.

From his statements to date, it is obvious the President prefers to shift the political blame for the deficits to the Congress while waiting until after the next election before embarking on a serious deficit reduction program. We do not believe the country can wait until the next year. We must begin now to fashion a credible program for closing the Federal budget deficit. We call upon the relevant Committees of the Congress, with or without the participation of the President, to move forward on a substantial deficit reduction package this year.

The "$150 billion" deficit reduction program most recently announced by the White House cannot be considered as a serious contribution to the problem. Most of the so-called "reductions" were already included in the original Reagan budget, or are measured

from a shifting base. For example, according to CBO, the "reduced" defense spending program announced by the White House does not reduce the deficit by $40 billion as claimed. Instead, the deficit is increased by $4 billion. CBO has estimated the original Reagan budget will result in a deficit of $233 billion by 1987 and that the latest White House proposal will still result in a 1987 deficit of nearly $200 billion. Thus, we have not a $150 billion deficit reduction program, but one that is less than $50 billion from the President's original proposal. Moreover, CBO estimates the 1985 deficit under the latest White House program to be $181 billion, or $1 billion more than the Administration's estimated deficit as contained in the President's original budget proposal. So much for a "down payment" on reducing the deficit.

We believe a real $200 billion deficit reduction program is needed without the gimmicks and tricks contained in the White House figures. If the President is unwilling to provide budget leadership, it must be provided by the Congress.

WILLIAM PROXMIRE.
DON RIEGLE.
CHRIS DODD.
JIM SASSER.
ALAN CRANSTON.
PAUL SARBANES.
ALAN J. DIXON.
FRANK R. LAUTENBERG.

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